

MADISON'S LUMBER REPORTER

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News & Updates

Madison's Timber Preview

This week's issue of *Madison's Timber Preview* looks at the latest forest industry asset sales and takeovers. Tembec's sale of two BC sawmills to Canfor, and Resolute Forest Products' unsolicited takeover of Fibrek are examined.

Contact us any time for a subscription.

Alberta Mountain Pine Beetle Update

Alberta's aerial surveys this year show about 50 per cent fewer red beetle-killed pine trees where control programs are in effect, primarily in west-central Alberta and east to Slave Lake. However, the number of newly attacked trees has increased in the Grande Prairie and Peace River areas, despite the aerial surveys showing no large in-flight of beetles from eastern British Columbia.

Single-tree removal is the government's main strategy to deal with infestations. Aerial surveys note the location of red, beetle-killed pines, allowing contractors to remove nearby infected trees over the winter. Just under a million trees are currently infected in Alberta, and the government plans to remove around 130,000 over this winter.

US Construction, Real Estate Data

The Standard & Poor's/Case-Shiller index, which covers half of all US homes, released Tuesday, showed US home prices dropped in September from August in 17 of the 20 cities tracked. That was the first decline after five straight months where at least half of the cities in the survey showed monthly gains.

The Case Shiller index measures prices compared with those in January 2000 and creates a three-month moving average. [READ MORE](#)

Nova Scotia Sawmills

Two lumber producing operations received varying forms of support from the government of Nova Scotia this week.

Bowater Mersey and NewPage Port Hawkesbury will be receiving a three year break on their power bills. The Nova Scotia Utility and Review Board announced their decision Tuesday in Halifax, amending the load retention rate for the mills.

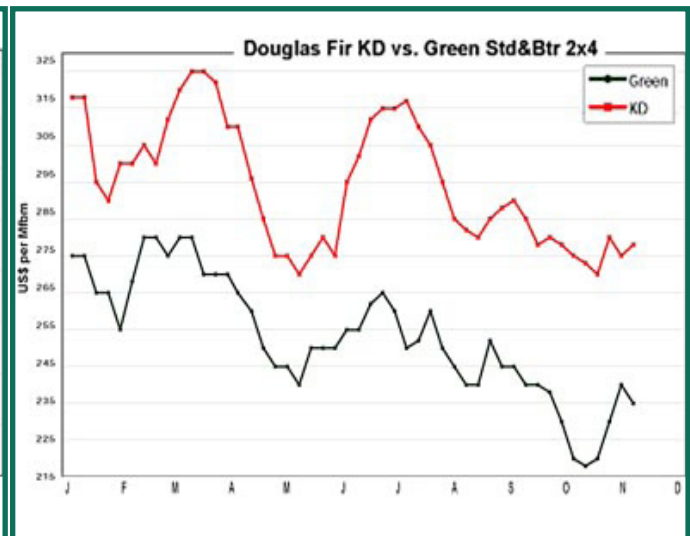
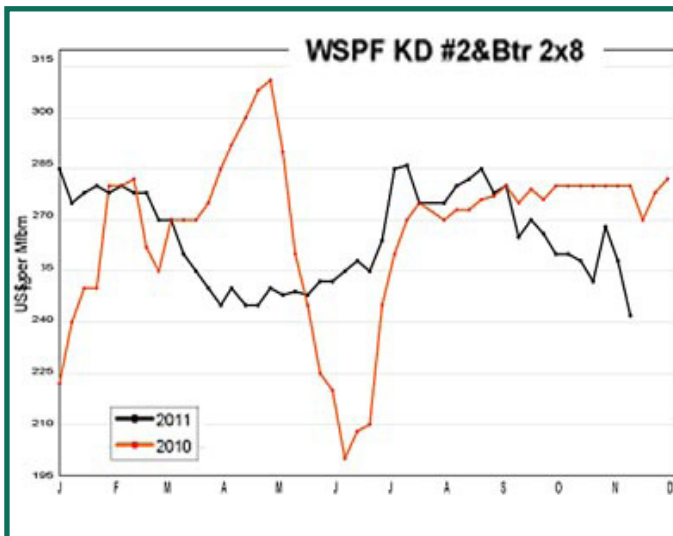
The Board said the mills will get a break on their rates because it is better for the ratepayers to have the mills open than to close due to their high power costs.

The ruling indicates the two mills would save \$14 million next year with the new rates. It also indicates other Nova Scotia Power customers would save \$20 million by having both mills operating and on the grid next year. [READ MORE](#)

Real Estate Activity, China

While government building of public housing units in China is just barely getting underway, private building and real estate development seems to be slowing down.

Madison's provides the latest data on new building products, real estate values, government announcements, and projections by qualified analysts. [READ MORE](#)



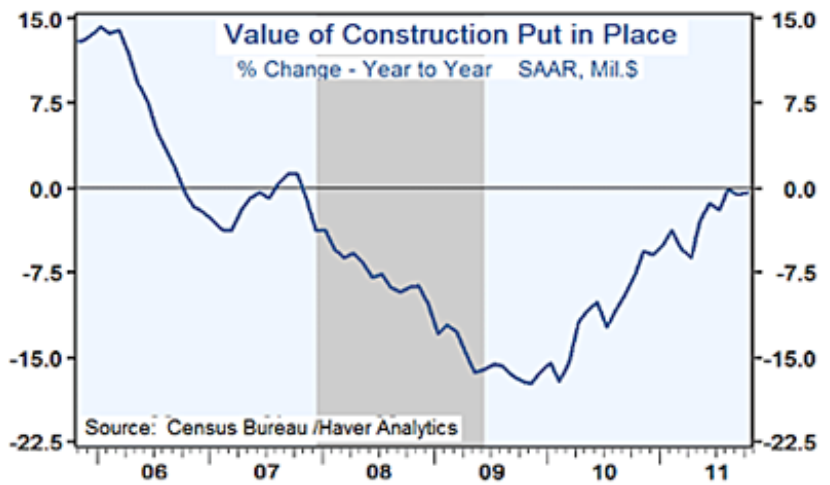
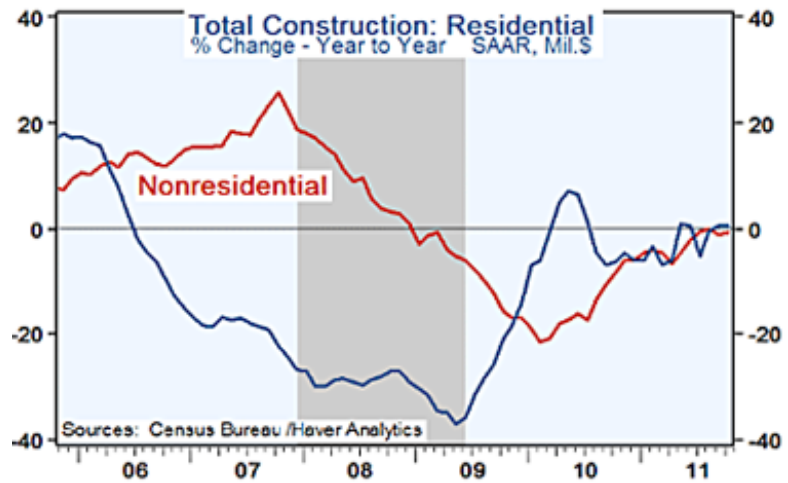
US Construction Spending Improves Further

Construction spending in the US during October rose 0.8 per cent, about as expected, after an unrevised 0.2 per cent September uptick.

Private sector spending led last month's gain with a 2.3 per cent jump. Residential building rose 3.4 per cent led by a 6.7 per cent jump, up 1.7 per cent year-on-year, in the value of home-improvements. The value of single-family building rose 0.6 per cent, a 1 per cent compared to the same time last year, and multi-family building slipped 0.8 per cent, but was up 6.7 per cent year-on-year.

Nonresidential building activity rose 1.3 per cent, up 8.4 per cent compared to the same time last year, with the year-on-year strength led by an 18.2 per cent gain in power, a 16.6 per cent increase in amusements and recreation, a 13.9 per cent rise in manufacturing and a 10.8 per cent rise in transportation building. Health care building fell 3.3 per cent compared to last year, communication fell 4.7 per cent and office building inched up just 0.7 per cent.

Public construction activity fell 1.8 per cent, down 9.4 per cent compared to last year, after its 0.3 per cent September uptick. The year-on-year decline was led by commercial, down 12.9 per cent, health care, down 10.5 per cent, transportation, down 2.6 per cent, and highways and streets, down 0.4 per cent.

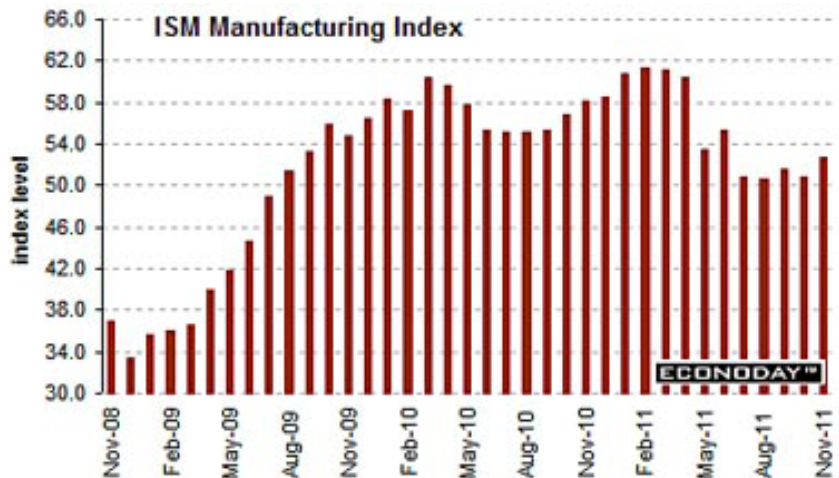


SOURCE: Haver Economics

ISM Mfg Index

ISM new orders are turning higher in what is very good news for the US manufacturing sector. The new orders index for November is up a very strong 4.3 points to 56.7, above 50 to indicate monthly growth and well above October. This index had been stuck at slightly sub-50 levels in prior months which now are forgotten. Helped by new orders, the ISM composite index is up 1.2 points to a 52.7 level that compares with the *Econoday* consensus for 51.5. November's level is the best since June.

Details show acceleration for export orders and for production. Delivery times are little changed while input prices slipped for a second month. Backlog orders are going down which is a negative that might be offset by the rise in new orders. Another disappointment is employment where hiring slowed, here too a factor that may reverse. Inventory readings are stable.



SOURCE: EconoDay

Key Prices

	This Week	Last Week	Change	Month Ago	Change	Year Ago	Change
WSPF KD R/L 2x4	235	238	-3	222	+13	260	-25
WSPF KD R/L 2x6	245	250	-5	250	-5	260	-15
WSPF KD R/L 2x8	242	258	-16	258	-16	270	-28
WSPF KD R/L 2x10	248	250	-2	250	-2	315	-67
WSPF KD PET 2x4 Stud	235	235	0	220	+15	250	-15
Douglas Fir Green R/L 2x4	238	240	-2	218	+20	240	-2
Douglas Fir Green R/L 2x10	325	320	+5	290	+35	310	+15
ESPF KD 2x4 8ft Stud	280	305	-25	300	-20	308	-28
OSB Ontario 7/16" (CDN\$)	195	195	0	195	0	200	-5

Weekly News

US Home Building, Selling

CONTINUED US home prices had stabilized in coastal cities over the past six months, helped by a rush of spring buyers and investors. But this year, home prices in many cities, including Cleveland, Detroit, Las Vegas, Phoenix and Tampa, have reached their lowest points since the housing bust more than four years ago.

Foreclosures and short sales – when a lender accepts less for a home than what is owed on a mortgage – are selling at an average discount of 20 per cent.

The Federal Housing Finance Agency released its own data Tuesday, finding that US home prices dropped 2.2 per cent in the 12 months through September as the housing market struggled to emerge from a five-year bust.

The slump was led by a 5.7 per cent decrease in the region that includes California, while the second-largest decline was 4.9 per cent in the area that includes Nevada.

In other news, the National Association of Realtors Pending Home Sales Index, based on contracts signed in October, rose 10.4 percent to 93.3 from 84.5 in September, the agency said in a release Wednesday.

That was the biggest monthly gain since November 2010.

In yet another release, construction spending in the US rose in October for a third consecutive month on gains in housing and commercial projects like office buildings and power plants.

Building outlays increased 0.8 per cent, Commerce Department figures showed Thursday in Washington.

New activity in the housing market, driven by low interest rates and home improvement projects, is starting to tug the industry up from decade lows. Even so,

overall weakness in residential construction alongside declines in government spending mean the industry will take a long time to strengthen.

Spending on public construction dropped 1.8 per cent, the report said. Federal construction outlays decreased 5 per cent to US\$26.4 billion, the lowest level since May 2009.

In October, builders broke ground on more homes than forecast and construction permits climbed to the highest level since March 2010, evidence that housing may become less of a drag as the U.S. recovery enters its third year.

Housing starts were at a 628,000 annual rate that month, Commerce Department figures showed November 17. Building permits, a proxy for future construction, increased 11 per cent.

Private construction spending climbed 2.3 per cent in October from the prior month. Homebuilding outlays increased 3.4 per cent, including a 6.7 per cent gain in home improvement.

Homebuilder sentiment has begun to turn up as well. The National Association of Home Builders/Wells Fargo sentiment index increased to 20 last month, the highest level since May 2010. Readings less than 50 mean more respondents said conditions were poor.

Bowater Mersey, New-Page Port Hawkesbury

CONTINUED Also Tuesday, the Nova Scotia Supreme Court approved an extension to NewPage Port Hawkesbury's creditor protection period.

Now the company has until January 20, 2012 to sell the Cape Breton paper operation. By December 16, the field of four bidders will be narrowed to one.

NewPage Port Hawkesbury said it has sufficient cash reserves to maintain the

operations at the mill in a "hot idle" state until January 20, 2012. However, that estimation is based on the assumption the company will collect \$3.3 million in HST receivables during the week ending on December 24, 2011. Without that amount of money, there will not be sufficient cash to maintain the hot idle state past Christmas.

And on Friday, Nova Scotia Premier Darrell Dexter was in Liverpool, NS, to make a \$50 million dollar announcement for the Bowater Mersey mill.

The mill will receive:

- a \$25 million capital loan through the Nova Scotia Jobs Fund over five years for a long-fibre refining project that will reduce the mill's electricity consumption;
- a capital loan to build a topping turbine at the nearby Brooklyn Energy Power Plant;
- \$1.5 million in workforce training for workers losing their jobs; and,
- Bowater Mersey will sell \$23.75 million, about 25,000 acres, of land back to the province by March 31.

Global Net Forest Loss

The global net loss of forest over 1990-2005 was smaller by a third than earlier estimated but deforestation still threatens environment and food security, the United Nations' food agency said on Wednesday unveiling new satellite-based data.

Net loss, in which forest losses are partially offset by new plantings and natural expansion, totaled 72.9 million hectares between 1990 and 2005, 32 percent down on the previous estimate of 107.4 million ha.

The new data also showed the net loss of forests accelerated at the end of the survey period, rising to 6.4 million ha per year between 2000 and 2005 from 4.1 million ha per year between 1990 and 2000.

China Home Building

Real Estate

More and more indicators out of the US suggest that a slow recovery to home building in that country will be upon us soon enough. What manner of

by Kéta Kosman

building that will be remains to be seen. Please see

Page 2 for details. Most analysts suggest smaller homes made of less expensive materials and the latest building permit figures seem to point to an emphasis on multi-family building in the next year or two. The shrinking but still sizable glut of unsold home inventory and another year of foreclosure activity cast uncertainty on the level of improvement for US housing starts in the next year.

Meanwhile, the latest data from China presents a muted picture of building activity in that new market for North American wood products.

China's home prices fell in 33 of 70 cities monitored by the government in October, the worst performance since it expanded property curbs and scrapped the reporting of national average housing data this year, according to figures from the statistics bureau on November 18, says *Bloomberg*.

The country's private housing investment is expected to increase 14 per cent in 2012, matching the gain in 2008, which was the slowest in 10 years, according to Nomura Holdings, a Japanese financial holding company. So-called second- and third-tier or less affluent cities will drive the nation's housing demand, said Zhang Zhiwei, a Hong Kong-based economist at Nomura.

"The government is taking a different strategy by pushing public housing," Zhang said. "Private housing will stay weak for quite some time."

China's government this year raised down-payment and mortgage requirements and imposed home purchase restrictions in about 40 cities to avert a bubble, while the central bank increased interest rates three times and the reserves ratio six times this year.

The government of China has deliberately engineered a credit crunch with the goal of slowing inflation as well as making it harder for speculators to borrow money, according to the *New York Times*. The

government has also limited the number of mortgages for each individual borrower, raised the down payments for mortgages to as much as 40 per cent to protect the banking system from losses, and begun experimenting with the introduction of real estate taxes in cities like Chongqing.

Residential property accounted for 6.1 per cent of China's gross domestic product last year, according to Citigroup.

China Real Estate Index System said Thursday a survey of property developers and real-estate agencies showed the average home price in November was 0.28 per cent lower compared to the previous month at 8,832 yuan, US\$1,385 a square metre, down from 8,856 yuan in October, according to the *Wall Street Journal*. The November average price was the lowest since May, when it was 8,819 yuan. The China Real Estate Index System said property prices in 57 cities declined in November from the previous month, while prices in 43 cities rose. Average prices for new property in November climbed 4.06 per cent on a yearly basis, a smaller increase than October's 5.2 per cent on-year gain.

Housing transactions in Beijing declined by 22 per cent year-on-year in the week of November 21 to 27, says the latest data compiled by the China Index Academy, as reported by *Business China*.

China's national statistics bureau recently released data showing that prices for new homes in the 70 Chinese cities that it monitors dipped by an average 0.15 per cent month-on-month in October, according to *Forbes*. The trend seems to be clear, housing prices fell in 34 of the cities in October — twice as many as in September. Residential real estate prices in October for the 100 cities that make up the China Real Estate Index range from RMB 25,747 per square metre in Shenzhen at

the high end, to RMB 3,120 per square metre in Hengshui at the low end. Residential real estate prices in twenty five of China's top 100 cities are below RMB 5,000 per square metre, says *Forbes*.

Chinese developers are facing the prospect of grim sales, with the top 10 developers recording total sales of only RMB 2.7 billion in November, down 25 per cent month-on-month, according to data provided by domestic realtor Beijing Homelink, says *Business China*.

China's economy, the world's second biggest, will expand 8.5 per cent next year even as export growth is pulled down by weak demand and a decline in the nation's competitiveness, the Organization for Economic Cooperation and Development said in a report Monday. Government housing projects can help to support construction and moderating inflation may allow Premier Wen Jiabao's government to cut interest rates from the middle of 2012, the OECD said.

"Even if China doesn't grow at the predicted 8 to 10 per cent, but at a figure 1 or 2 per cent lower, there will still be tremendous growth," said Cushman & Wakefield Chair Carlo Sant'Albano, from the company's headquarters in New York. "Furthermore, its economy will be increasingly focused on encouraging domestic consumption. Therefore, there is tremendous potential for growth, driven by the needs of domestic consumption."

Andy Zhang, Managing Director of Cushman & Wakefield's China office, added, "Although the market is challenging, we are now seeing more opportunities. Every year there is a huge population coming from the countryside into cities, and at a scale never previously experienced by any country."

